



**TOWN OF MANSFIELD
HEALTH INSURANCE FUND: RESERVE POLICY
Adopted December 9, 2019**

I. HEALTH INSURANCE FUND

The Health Insurance Fund is an internal service fund used to account for the financial activity associated with providing health insurance to current and former employees for the Town of Mansfield, Mansfield School District, and Regional School District 19 (Partners). Related agencies, such as the Eastern Highlands Health District and the Mansfield Downtown Partnership may also participate in the health insurance pool. Employer, employee, and retiree payments for health insurance are recorded in this fund as well as disbursements for claims and administration expenses. The Town of Mansfield is considered "self-insured" for employee health insurance claims, but like most organizations, purchases "stop-loss" insurance that essentially caps the Town's liability for an individual's claims in a fiscal year (currently, our cap is \$175,000 per enrollee); above that amount, the stop-loss insurer takes over.

This Policy document is meant to guide Town staff, Partners and board and commission members on managing the necessary reserves for the Health Insurance Fund and to provide information to the public on the Fund and reserving policies.

II. PURPOSE

The Health Insurance Fund (Fund) maintains a reserve for two potential liabilities:

- A. The Town's third party administrator, benefits consultant and the finance director estimates the likely cost of medical claims covered by the health insurance plans negotiated for the upcoming plan year and the health insurance premiums needed to cover these claims and plan administrative costs. While these projections are based on carefully calculated actuarial assumptions, they are not, and never can be, guaranties of future claim costs. Accordingly, the Town's advisor recommends a reserve amount to cover claim costs that exceed the actuarial projections in a given year.
- B. The second potential liability is "Claims Incurred but not Reported" (IBNR). IBNR is a feature of all insurance plans and reflects the fact that after the conclusion of a policy year, there will have been claims that have occurred and will be owed under the insurance plan, but not yet reported to the insurer or benefits administrator. This second potential liability is estimated to be 25% of current claims and would be applied to IBNR claims as needed.

III. APPLICABILITY

This policy applies to the Town-administered shared Health Insurance Fund as defined in Section I, Policy and the Fund's Partners. The related agencies, such as Eastern Highland Health District (EHHD) and the Mansfield Downtown Partnership purchase their insurance through the Health Insurance Fund, but are not considered partners and this policy is not applicable to them.

IV. FUND ADMINISTRATION

The Town of Mansfield administers a Health Insurance Fund to account for all financial activity associated with employee medical benefits for the Partners and related agencies.

- A. Revenue to this fund shall include employer contributions from the Partners and related agencies, employee premium share amounts, investment earnings, rebates and any other miscellaneous items relating to the administration of the health insurance benefits program.
- B. Expenditures from this fund will include expenses necessary for the maintenance and administration of the health insurance benefit program, including, but not limited to, covered employee medical, pharmaceutical and dental claims, administrative services fees, actuarial, consulting and legal fees, stop loss insurance and any other fees incurred on behalf of participating employees of the Partners and related agencies health insurance programs.

V. CONSIDERATIONS

There are two main costs to a self-insured plan: fixed annual costs and variable costs. The fixed annual costs include administrative fees, any stop-loss premiums, and any other set fees charged per employee. These costs are billed monthly by the plan administrator or carrier, and are charged based on plan enrollment. The variable costs are largely the payment of health care claims. These costs vary from month-to-month based on health care use by covered persons (e.g. employees and dependents) and the health care providers' billing practices.

VI. TARGET RANGE FOR FUND

The Town will maintain a reserve in the self-insured Health Insurance Fund equal to the greater of: (1) thirty percent (30%) of the most recent 36 month rolling 12-month average of claims experience, or (2) four times the monthly average of the most recent fiscal year claims experience. The purpose of the rolling average is to eliminate high or low claims experience in any given year and to provide for a longer-term calculation for a more accurate experience analysis. The Town's benefits consultant concurs, based on industry standards and experience, this is an appropriate reserve amount.

VII. PROCEDURE FOR USE

The Town Manager can approve the regular, routine, and anticipated expenditure from the Fund for Partners and related agencies. The Town Manager will recommend to the Town Council, for approval by resolution, the use of the Fund for any non-health insurance-related use.

VIII. MAINTENANCE OF FUND BALANCE

If the fund falls below this policy-designated target level, the Town Manager or Finance Director will promptly notify the Town Council and Partners. Partners shall first use any prior year surplus or excess General Fund Unassigned Fund Balance (according to the Fund Balance Policy) in future years to replenish the Health Insurance Fund until it reaches the policy target level. The Town must be diligent in ensuring the replenishment of the Health Insurance Fund prior to expending the Health Insurance Fund for non-health insurance purposes.

Any deficiency or surplus will be prorated between the Partners based on each entity's current enrollment in the health insurance pool.

- A. Deficiencies. When the Health Insurance Fund falls below the required level, as stated in this policy, it will be replenished within the following time periods:

- Deficiency resulting in a year-ending fund balance between 25% and 30% percent of fund expenditures shall be replenished over a period not to exceed one (1) year
 - Deficiency resulting in a year-ending fund balance between 20% and 24.99% percent of fund expenditures shall be replenished over a period not to exceed three (3) years
 - Deficiency resulting in a year-ending fund balance less than 20% percent of fund expenditures shall be replenished over a period not to exceed five (5) years
- B. Surplus. When the Health Insurance Fund exceeds the required level, as stated in this policy, the excess may be used by each Partner for the following purposes:
- Maintenance of employee premiums for the following plan year
 - Supplement the Partner's annual retiree benefits obligation (up to 100% funded)
 - Non-health related uses, with approval by vote of the respective Partner's governing body.

IX. ANNUAL REVIEW

Fund levels will be adjusted annually in accordance with this policy. Fund levels will be set at the end of each fiscal year in conjunction with the preparation of the Town's annual financial statements.